

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

OMB-01 EB-07 CIEP-01 ACDA-05 TRSE-00 STR-04 EA-07

MC-02 /087 W

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R 231415Z DEC 75

FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC 9351

INFO USDOC WASHDC

AMEMBASSY BELGRADE

AMEMBASSY BERLIN

ZRUDKAR/AMEMBASSY BUCHAREST 1779

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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E.O. 11652: N/A

SUBJECT: FOREIGN FIRMS ALLOWED TO OPEN SALES OFFICES IN  
CZECHOSLOVAKIA

1. BEGIN SUMMARY: FEDERAL MINISTRY OF FOREIGN TRADE HAS  
ISSUED LONG-EXPECTED DECREE ON ESTABLISHMENT OF OFFICES IN  
CZECHO LOVAKIA BY FOREIGN FIRMS. END SUMMARY.

2. FEDERAL MINISTRY OF FOREIGN TRADE HAS AT LAST ISSUED  
DECREE ALLOWING FIRMS TO OPEN REPRESENTATION OFFICES IN  
CZECHOSLOVAKIA. KEY POINTS OF DECREE STATE THAT APPLICATIONS,  
WHICH WILL BE ACCEPTED BEGINNING JANUARY 1, 1976, MUST INCLUDE  
DETAILED INFORMATION ON APPLICANT'S FIRMS; MANUFACTURING  
OR COMMERCIAL ACTIVITIES, CAPITAL STRUCTURE, NAMES OF THOSE  
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EXECUTIVES AUTHORIZED TO SPEAK IN ITS NAME, AND THE PRECISE

BUSINESS ACTIVITIES IN WHICH IT PROPOSES TO ENGAGE IN CZECHOSLOVAKIA. THE APPLICATION MUST INCLUDE THE NAMES OF CZECHOSLOVAK ENTERPRISES WITH WHICH IT IS ALREADY DOING BUSINESS, AND THE EXTENT OF THIS BUSINESS. MOREOVER, THE DECREE STATES: "THE PERMISSION FOR ESTABLISHING TRADE REPRESENTATION CAN BE GIVEN ONLY TO A FOREIGN ENTERPRISE WHICH HAS A SUBSTANTIAL SHARE IN ECONOMIC RELATIONS BETWEEN THE STATE ON WHOSE TERRITORY IT HAS ITS DOMICILE AND THE CZECHOSLOVAK SOCIALIST REPUBLIC."

3. FOREIGN FIRMS MAY ELECT TO WORK THROUGH CZECHOSLOVAK SALES REPRESENTATIONAL AGENCIES, BUT THEY ARE NOT REQUIRED TO DO SO. FIRMS WHOSE APPLICATIONS ARE APPROVED WILL BE ABLE TO ESTABLISH THEIR OWN OFFICES INDEPENDENTLY OF THE CZECH FIRMS, (THE JAPANESE, IN PARTICULAR, HAD BEEN AFRAID INDEPENDENT OFFICES WOULD NOT BE ALLOWED.) AUTHORIZATION TO ESTABLISH AN OFFICE WILL BE GRANTED AS A RULE FOR A PERIOD OF ONE YEAR, WITH, OF COURSE, THE RIGHT TO APPLY YEAR-BY-YEAR FOR AN EXTENSION. THE DECREE DOES NOT APPLY TO BANKING, FINANCIAL, OR TRANSPORT ENTERPRISES, NOR WILL IT AUTHORIZE CZECHOSLOVAK FOREIGN TRADE CORPORATIONS TO REPRESENT FOREIGN FIRMS.

4. EMBOFF CALLED ON MERCL AT FEDERAL MINISTRY OF FOREIGN TRADE TO SEEK CLARIFICATION OF DECREE, WHICH SAYS NOTHING ABOUT TAXES, PROCEDURE FOR HIRING LOCAL STAFF, OR HOW FOREIGN FIRMS ARE TO ACQUIRE OFFICE SPACE OR LIVING QUARTERS FOR FOREIGN STAFF, FOREIGN EXCHANGE CONTROLS ETC. MERCL SAID FOREIGN FIRMS WILL BE PROVIDED THIS INFORMATION WHEN HIS MINISTRY NOTIFIES THEM THAT THEIR APPLICATIONS HAVE BEEN APPROVED. MERCL SAID APPLICATIONS WOULD PROBABLY BE APPROVED OR DENIED WITHIN THREE TO FIVE WEEKS OF THEIR SUBMISSION. WHEN EMBOFF SUGGESTED THAT CONCRETE NEGOTIATIONS COULD THEN BEGIN, MERCL SAID THAT WAS TRUE FOR HOUSING, OFFICES AND LOCAL STAFF, BUT IMPLIED THAT FIRMS WOULD BE PRESENTED WITH PROPOSALS ON TAX LIABILITY, ETC., THAT WOULD LEAVE LITTLE ROOM FOR NEGOTIATION.

5. MERCL WAS LESS THAN FORTHCOMING TO EMBOFF'S QUESTIONS RE PROCEDURES FOR ESTABLISHING OFFICES, HINTING THAT GOVERNMENT LIMITED OFFICIAL USE

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PREFERS TO DEAL DIRECTLY WITH FIRMS AS THEY APPLY, WITHOUT INVOLVEMENT OF THEIR EMBASSIES. HE STATED CLEARLY, HOWEVER, THAT THE "PARTNERS" OF THE NEW REPRESENTATIONAL OFFICES ARE CZECHOSLOVAK FOREIGN TRADE CORPORATIONS, NOT END-USERS. HE ALLOWED ONLY THAT TECHNICIANS SHOULD TAKE PART IN NEGOTIATIONS, INCLUDING PLANT VISITS, WHEN NEGOTIATIONS HAD REACHED AN ADVANCED STATE.

COMMENT: WE DOUBT THAT GOVERNMENT WILL BE ABLE TO HOLD THE

LINE ON THIS POINT. AS NON-RESIDENT FOREIGN BUSINESSMEN ALREADY ENJOY MORE ACCESS TO END-USERS, IN MANY CASES, THAN THE RULES SPECIFY.

6. MERCL SAID THAT LACK OF MFN FOR CZECHOSLOVAKIA AND THE CLAIMS/GOLD DISPUTES DO NOT PRECLUDE AUTHORIZATION FOR U.S. FIRMS TO OPEN OFFICES IN CZECHOSLOVAKIA. HE CLAIMED EACH APPLICATION WOULD BE JUDGED ON THE BASIS OF WHETHER INCREASED TRADE WITH A PARTICULAR FOREIGN FIRM WOULD BE GOOD BUSINESS, TAKING INTO ACCOUNT SATISFACTORY BUSINESS RELATIONS IN THE PAST AND WHETHER THE EQUIPMENT, TECHNOLOGY, OR SERVICES THE FIRM OFFERED WERE IN HARMONY WITH CZECHOSLOVAKIA'S LONG RANGE DEVELOPMENT PLANS.

7. COMMENT: DECREE APPARENTLY IS DESIGNED TO FACILITATE TRADE WITH LARGE CORPORATIONS, DESPITE OFFICIAL DISCLAIMERS. HOWEVER, JAPANESE EMBASSY IS INCLINED TO VIEW SENTENCE QUOTED PARA 2 AS MERELY PROVIDING CZECHOSLOVAKS WITH A CONVENIENT PEG ON WHICH TO HANG TURNDOWN OF ANY APPLICATION THEY WISH, AND FEEL THAT A FEW SMALL FIRMS SELLING WHAT CZECHOSLOVAKS REALLY NEED WILL BE ALLOWED TO OPEN OFFICES. IT IS DIFFICULT TO SEE HOW LARGE NUMBERS OF APPLICATIONS CAN BE APPROVED, GIVEN THE SHORTAGE OF HOUSING AND OFFICE SPACE, UNTIL THE PROPOSED WORLD TRADE CENTER IS OPENED IN PERHAPS 3 OR 4 YEARS. UNOFFICIAL BUT RELIABLE SOURCES SAY THAT SPRAVA SLUZEB, WHICH SUPPLIES OFFICE AND HOUSING SPACE, AND LOCAL EMPLOYEES TO EMBASSIES, WILL ALSO BE RESPONSIBLE FOR FOREIGN BUSINESSMEN. THIS DOES NOT BODE WELL, AS SPACE AND PERSONNEL ARE IN VERY SHORT SUPPLY. BUT THERE ARE RUMORS THAT SPRAVA WILL NOT ENFORCE STRICTLY ITS OWN RULES PROHIBITING FOREIGNERS FROM MAKING PRIVATE ARRANGEMENTS WITH CZECHOSLOVAK LANDLORDS. THERE ARE MANY CZECHOSLOVAKS WHO WOULD LIKE TO BE ABLE TO RENT THEIR APARTMENTS FOR HARD CURRENCY, BUT WHO WILL NOT RENT LIMITED OFFICIAL USE

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THEM THROUGH SPRAVA.

8. WE THINK THAT U.S. FIRMS WITH THE BEST CHANCES OF OBTAINING AUTHORIZATION ARE COMPUTER AND CHEMICAL COMPANIES. THERE ARE STRONG INDICATIONS THAT THE CZECHOSLOVAKS ARE TIRED OF DEALING THROUGH EUROPEAN LICENSEES AND AGENTS TO OBTAIN ADVANCED U.S. TECHNOLOGY, SO THERE WILL UNDOUBTEDLY BE SOME PRESSURE FROM END-USERS AND FTO'S TO ALLOW IN MORE U.S. FIRMS. WE WOULD BE SURPRISED, THOUGH, IF THEY PREVAILED OVER THOSE WHO INSIST ON RESTRICTING TRADE WITH THE U.S. UNTIL CZECHOSLOVAKIA GETS BACK MFN AND HER GOLD.

9. EMBASSY PREPARING TRANSLATION OF DECREE, WILL POUCH

ASAP.  
PERRY

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## Message Attributes

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